



Memorandum

To: Budget Standing Committee

Cc: Senior Management Team

From: Ertelt, Robyn

Date: July 5, 2017

Subject: Allocation of Extra Dividends from Hydro - Deferred Report

At the June 19, 2017 Budget Standing Committee meeting deferred the FMS-B029-2017 report and the following recommendations.

Staff Recommendation:

That the Budget Standing Committee (BSC) approve the allocation of the extra hydro dividends of \$4 million for the following purposes.

- *Infrastructure Levy Reserve - \$2,000,000*
- *Building Improvement Reserve - \$1,000,000*
- *Tax Stabilization Reserve - \$750,000*
- *Motor Vehicle Replacement Reserve - \$550,000*
- *Winter Control Reserve – \$300,000*
- *Training Reserve - \$200,000*

Recommendation – Councillor Britton:

Whereas the Standing Budget Committee received the Parks Renewal Plan report PRCS-B007-2017 on January 25, 2017 which stated, “The capital forecast to manage the assets identified for renewal over the next five years is approximately \$5,000,000 in 2016 dollars”; and

Whereas that same report stated that \$5,000,000 deficit does not include costing for “other park amenities, including trails, irrigation, underdrainage, fences and benches” as well as washrooms, parking lots, and outdoor aquatic facilities; and

Whereas the report also says that “The risk of not proceeding with replacement of these amenities within the recommended timeframe is a compounding budgetary need each year and that amenities are deemed unsafe and are closed or removed without replacement, reducing the existing services level to the community. In addition, if the

amenities are allowed to degrade and become unusable, the inventory would no longer be appropriate to service the community's needs."

Be It Resolved That the Budget Standing Committee (BSC) approve the allocation of the extra hydro dividends of \$4 million to Parks and Recreation for the purposes fulfilling the Parks Renewal Plan.

Report from Financial Management Services, Director

Date of Report: June 2, 2017

Date of Meeting: June 19, 2017

Report Number: FMS-B029-2017

File: 10.57.99

Subject: Allocation of Extra Dividends from Hydro

Recommendation

That the Budget Standing Committee (BSC) approve the allocation of the extra hydro dividends of \$4 million for the following purposes:

- Infrastructure Levy Reserve - \$1,200,000
- Building Improvement Reserve - \$1,000,000
- Tax Stabilization Reserve - \$750,000
- Motor Vehicle Replacement Reserve - \$550,000
- Winter Control Reserve - \$300,000
- Training Reserve - \$200,000

Background

With the cancellation of the Shickluna project, funds reserved by St. Catharines Hydro for that project can now be considered as possible special dividends to be declared. At its annual general meeting on May 29, 2017, St. Catharines Hydro provided a cheque to the City of St. Catharines for extra dividends in the amount of \$4 million.

As part of its 2018 work plan, the BSC directed staff to prepare a report on how those extra dividends should be allocated including the feasibility of an incentive program for affordable housing units in the Community Improvement Plan (CIP)

This report provides staff recommendation on how these extra funds should be allocated.

Report

Existing Reserves

At the end of each year staff reports on the balances in the City's reserves and reserves funds. During the 2016 budget process staff prepared a report on the reserves and reserves funds with a target balance for each reserve fund. This information is attached as Appendix 1. The reserve target balances have been updated to reflect the 2016 year

end amounts. The majority of the City's reserve funds are not at their target balances. Chart 1 below shows the percentage of the various infrastructure reserve and the current balance as percentage of target balance.

CHART 1

Reserve	Target Balance	Current Balance as % of Target Balance	Current Balance as % of target balance with additional allocation
Infrastructure Levy	Currently no target balance	N/A	N/A
Building Improvement	\$49,839,600	3.22%	5.24%
Tax Rate Stabilization	\$9,810,900	4.59%	9.68%
Motor Vehicle Replacement	\$8,963,000	78.90%	85.04%
Winter Control	\$2,277,360	6.59%	19.76%

In addition, the pressures of the past three budget years have resulted in the allocations to the equipment and building reserves being lower than staff recommendations, in order to meet the budget guidance set. Therefore, when additional funds, such as these extra hydro dividends, become available a portion of them should be allocated to certain reserves to move closer to the target balances.

Infrastructure Levy

Based on BSC recommendation, Council approved an Infrastructure Levy as part of the 2016 budget process. For the past two years funds have been allocated to this reserve based on one percent of the City's portion of the current year tax levy. This one percent is established for five years, with 2016 being the first year. The Infrastructure Levy policy identifies eligible renewal and replacement projects to be funded by this levy. The following is a list of these items:

- Road improvements
- Walkway improvements
- Traffic signal replacement
- Playground equipment
- Building improvements
- Tree planting
- Sidewalk improvements
- Park amenities

Currently there is no target balance for the Infrastructure Levy reserve as the City's infrastructure gap is significant, over approximately \$140 million. The allocation of more funds to this reserve helps to address this deficit. This also assists with the Parks Renewal to be more achievable. The balance of this reserve as of December 31, 2016 is \$890,000.

As playground equipment, park amenities and tree planting are significant priorities for this Council, staff recommend a larger allocation to this reserve. Staff recommend an allocation of \$1,200,000 to this reserve.

Building Improvement

During the 2016 budget process the building reserve was created. The target balance is set as 10% of the estimated replacement cost of buildings owned by the City, which is \$49,839,600, as of December 31, 2016. The balance as of December 31, 2016 is \$1,609,722. Therefore staff recommend an allocation of \$1,000,000 to this reserve to be used towards future building improvements.

Tax Rate Stabilization Reserve

Based on BSC recommendation, Council approved a Tax Rate Stabilization Reserve as part of the 2016 budget process. The purpose of this reserve is to minimize the fluctuation of tax rate increases due to extraordinary or unforeseen events. In addition, it provides an alternative to increasing tax levies. The target balance is set at 5 to 10% of annual total tax levies. The 2017 budgeted tax levies are \$98,109,000. Therefore 10% equals \$9,810,900 which would be the current maximum target balance. The balance as of December 31, 2016 is \$450,000. Staff are recommending an allocation to this reserve of \$750,000. Increased costs related to the transition to another CAO creates one pressure on the 2018 budget. By allocating some funds to this reserve would allow usage during 2018 budget and not result in an increase in the 2018 budget related to this item. This is a one-time or extremely rare occurrence and the usage of this reserve for an item such as this is one of the reasons for its creation.

Motor Vehicle Replacement

The target balance for this reserve is set at 50% of total estimated replacement cost of motor vehicles owned by the City, which is \$8,963,000, as of December 31, 2016. The balance of this reserve as of December 31, 2016 is \$7,072,202. Therefore staff recommend an allocation of \$550,000 to this reserve fund.

Winter Control

Based on BSC recommendation, Council approved a Winter Control reserve as part of the 2016 budget process. This reserve is to fund potential shortfalls in the winter control budget due to higher than anticipated incidents of inclement weather. The target balance equals 100% of the previous five year rolling average of Winter Control Program expenditures. The rolling average for 2012 to 2016 is \$2,277,360. The balance of this reserve as of December 31, 2016 is \$150,000. Therefore staff

recommend an allocation of \$300,000 to this reserve fund, which will increase the reserve balance to 19.8% of its target balance.

Potential New Reserves

In the last two budget cycles, the BSC established seven new reserves: Winter Control, FirstOntario Performing Arts Centre Capital Sustainability, the Tax Rate Stabilization Reserve, Election Reserve, Litigation/Insurance Reserve, Meridian Centre Capital Fund Reserve and Meridian Centre Event Fund Reserve.

With the extra hydro dividends staff are recommending the creation of one additional reserve, a training reserve.

Training Reserve

In 2015 budget, the City's Skills Development and Training budget of \$112,000 was eliminated. Training is needed for development of skills and knowledge of changes to legislation. In addition, there are a significant number of staff that will be eligible to leave the corporation in the next three to five years. Staff have estimated this number to be between 31% and 38%. St. Catharines is not alone in this issue. Many municipalities across the province are facing the same issue. This increases the need to adequately succession plan.

Succession planning is not a replacement plan. With succession planning it is not a canned program and it needs to be fluid so that it can evolve and change. One option to succession planning is the development of talent pools. This begins with the identification of "key" or "critical" positions within the organization based on evaluation criteria. This training reserve would assist with the development of staff to progress in the corporation. There is new legislation annually that requires staff training and development.

Staff support the inclusion of training and development in the annual operating budget. In recent years due to other pressures the annual operating budget could not accommodate the training and development line item. Therefore staff recommend an allocation of \$200,000 to this reserve. There is an existing staff training policy and with the approval of this reserve this policy will need to be further refined with an increased focus on succession planning.

Other Uses

Community Improvement Plan (CIP)

The City currently has two CIP programs: Brownfield Tax Assistance and Tax Increment Finance Program. During the 2016 budget process, staff presented a plan to fund the CIP. This funding plan began with a base funding of \$825,000 plus 10% of the value of taxes for each CIP project paid out in that year. As of December 31, 2016 the balance of the CIP reserve for approved projects was \$4,572,593.

The BSC requested that staff review the feasibility of an incentive plan for affordable housing. In a two-tier municipal structure, Affordable Housing falls under the responsibility of the upper tier. Therefore, it would be the Region of Niagara's responsibility to create an Affordable Housing CIP. An Affordable Housing CIP is a tool that is intended to stimulate the development of affordable housing units within the City/Region. The need for affordable housing is not only an issue for the City of St. Catharines, but also for the Niagara Region and province wide. The Federal and Provincial governments have provided some short-term and not sustainable funding for this initiative to Niagara Regional Housing, such as the Social Infrastructure Fund (SIF) \$9,462,700 and \$6,079,500 from the Social Housing Improvement Program (SHIP).

A CIP could assist with the development of affordable housing. One main obstacle to the creation of these units are the costs associated with planning approvals, building permit fees and increased tax rates. These costs are passed on by the developer to the owner in the form of higher rental rates.

The Housing Action Plans which was received by Council on June 12, 2017 indicates that there needs to be a review of the City's CIP program related to the provision of affordable housing. It is recommended that a full review of this incentive program be completed by the City's Planning and Building Services with assistance from Financial Management Services in order for a fulsome report to be prepared and presented to BSC for its consideration. Further, it is staff's understanding that there is most likely to be additional funds received from hydro this year that could be allocated to this initiative should BSC be in favour of recommending such a program to City Council.

Financial Implications

The financial implications are addressed throughout the report.

Conclusion

Staff are recommending that the extra hydro dividends of \$4 million be used for the following purposes.

- Infrastructure Levy Reserve - \$1,200,000
- Building Improvement Reserve - \$1,000,000
- Tax Stabilization Reserve - \$750,000
- Motor Vehicle Replacement Reserve - \$550,000
- Winter Control Reserve - \$300,000
- Training Reserve - \$200,000

Relationship to Strategic Plan

Economic Sustainability

Goal: Be an affordable city for young people, families and older adults.

Action: Update financial controls and debt management strategy to better manage escalating costs of City operations and services.

Action: Implement multi-year budgeting to improve long-term financial planning.

Prepared and Submitted by:

Kristine Douglas, Director, Financial Management Services

Approved by:

Shelley Chemnitz, Commissioner, Corporate Services

Attachments:

Appendix 1 – City of St. Catharines – Reserves and Reserve Funds

City of St. Catharines - Reserves and Reserve Funds

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	Targeted Balance	Basis for Targeted Balance
Working Funds	Cash management device for cash flow and to reduce the need for short-term loans	- Annual operating budget contribution	- Unforeseen expenditures that may occur - Unbudgeted/new expenditures	\$ -	NA	The 2015 budget utilized the remaining funds in this reserve. The purposes of the reserve will now be achieved through the tax stabilization reserve
Accumulated Sick Leave	IAPFF Local 485 employees can accumulate unused sick leave which could be taken as cash on termination	- Annual operating budget contribution	- Sick leave paid out upon termination/retirement for eligible employees	\$ 3,005,640	\$ 5,035,000	\$5,035,038 - Total accumulated sick leave calculated as at December 31, 2015
Fire Equipment Replacement	Replacement of major equipment	- Annual operating budget contribution - Gain on disposition of major fire fighting equipment - Proceeds on disposition of major fire fighting equipment	- Purchase of major fire fighting equipment	\$ 833,191	\$ 1,093,000	- Maximum balance of 10% estimated replacement cost of major fire fighting equipment
Motor Vehicle Replacement	Replacement of major equipment	- Annual operating budget contribution - Gain on disposition of motor vehicle equipment - Proceeds on disposition of motor vehicle equipment	- Purchase of motor vehicle equipment	\$ 7,072,202	\$ 9,946,500	- Maximum balance of 50% of total estimated replacement cost of motor vehicle equipment owned by the City Estimated replacement cost as at December 31, 2016: \$19,892,986 x 50% = \$9,946,493
Encumbrances	Fund unliquidated encumbrances or commitments	- Annual operating budget contribution - Annual water and wastewater budget contribution	- Obligations that were included as part of the operating or water and wastewater budget for which payment is outstanding at year end.	\$ 19,540,710	N/A	Fluctuates as Balance is dependent on obligations for which payment is outstanding at year end

City of St. Catharines - Reserves and Reserve Funds

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	Targeted Balance	Basis for Targeted Balance
Building Improvement	Provide for commitments to building improvement projects	- Annual operating budget contribution - Grants/rebates on building improvement expenditures	- Building improvement projects	\$ 1,609,722	\$ 49,839,600	- Maximum balance of 10% of total estimated replacement cost of buildings owned by the City Estimated replacement cost as at December 31, 2016: \$498,395,520 x 10% = \$49,839,552
Cemetery	Net cemetery activity to be used for capital items	- Transfer of annual net cemetery revenues - Surcharges on cemetery transactions	- Capital items used in cemetery operations	\$ 29,842	\$ 345,000	- Maximum balance of 25% of annual Cemetery revenues 2015 budgeted Cemetery revenues: \$1,378,500 x 25% = \$344,625
Brownfield Reserve	Brownfield development	- Contribution from Province of Ontario - Cost recovery - billing of City partners	- Expenditures related to Brownfield development (professional fees, capital expenditures, etc).	\$ -	- N/A - One-time legacy fund to be drawn down over time	- N/A - One-time legacy fund to be drawn down over time
Community Improvement Plan Reserve	To fund the City Community Improvement Plan	-Annual operating budget contribution	-Council Approved CIP projects	\$ 4,572,593		
Hydro Funds	One time hydro funding source	-One time special dividend received from Hydro	-Operating Budget support	\$ 200,000	- N/A - One-time funding	- N/A - One-time funding and to be fully utilized in 2017
Infrastructure Levy Reserve	Infrastructure Levy to support capital projects to address infrastructure gap	-1% annual tax levy	-as per Infrastructure levy policy	\$ 890,000	-No upper funding level as infrastructure gap is significant	-No upper funding level as infrastructure gap is significant
Winter Control	Fund potential shortfalls in the winter control budget due to higher than anticipated incidents of inclement weather	- Transfer of annual winter control surplus (if any)	- Transfer to cover annual winter control deficit (if any)	\$ 150,000	\$ 2,277,360	- Maximum balance equating to 100% of the previous five year rolling average of Winter Control Program expenditures - Rolling average for 2012 to 2016 \$2,277,360 '- Target Balance should be updated annually to the current rolling average of program expenditures

City of St. Catharines - Reserves and Reserve Funds

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	Targeted Balance	Basis for Targeted Balance
Tax Rate Stabilization Reserve	Minimize the fluctuation of tax rate increases due to extraordinary or unforeseen events. Provides an alternative to raising total tax levies	- Annual operating budget contribution - Transfer of annual operating budget surplus	- Annual operating budget contribution - Unforeseen expenditures that may occur - Unbudgeted/new expenditures	\$ 450,000	\$ 9,810,900	- Maximum balance of 5% to 10% of annual total tax levies. 2017 budgeted tax levies: \$98,109,000 x 10% (maximum) = 9,810,900
FirstOntario Performing Arts Centre - Capital Sustainability Reserve	To offset the capital needs of the PAC for the next 25 years to ensure that the building remains in good status with modern equipment without tax base support or debt financing	- \$2 surcharge added to each ticket sold at the PAC	- Capital items used in PAC operations (replacement of existing capital and/or upgrades) - Unforeseen or unbudgeted/new expenditures	\$ 129,795	\$ 6,075,000	- Maximum balance of 10% of total estimated replacement cost of PAC the Project Budget for the PAC: \$60,757,101 x 10% = \$6,075,710
Election Reserve	To fund the cost of the municipal election	- Annual operating budget contribution equal to 25% of anticipated election costs	- election expenses in election year	\$ 400,000	\$500,000	-Target Balance represents the cost of the municipal election which occurs every four years.
Litigation/Insurance Reserve	To fund "unknown matters" and to provide additional amounts to pay legal expenses and damages below City's deductible.	-Unspent funds in the City's Legal and Court Cost; and Self-Insurance expenditures -allocations from year end surplus	-unknown litigation matters and legal cost and damages below City's insurance premium deductible	\$ 200,000	\$400,000	-Target balance represents approximately 50% of the annual self-insurance; and legal & court cost expenditures.
Meridian Centre Capital Reserve	To fund capital replacements and upgrades	- Surplus funds from annual operating budgets	-capital expenses based on capital plan approved as part of the City's annual capital upgrade program	\$ 59,588	\$ 5,264,000	- Maximum balance of 10% of net facility assets. Net facility assets as at December 31, 2015: \$51,140,000 x 10% = \$5,114,000
Meridian Centre Event Fund Reserve	To support events that have significant benefit to the community and create additional revenue generating potential	- Surplus funds from annual operating budgets -Portion of additional revenues generated from events that this fund was used to support	-capital or other expenses related to the attraction of events to the facility, subject to approve of the Governance Committee	\$ 50,000	\$ 5,264,000	-\$150,000 for event fund portion.
TOTAL				\$ 39,193,283		

City of St. Catharines - Reserves and Reserve Funds

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	Targeted Balance	Basis for Targeted Balance
DISCRETIONARY RESERVE FUNDS						
Future Mausoleum	Fund debt repayment and future mausoleum construction	- Surcharges on cemetery transactions - mausoleum plot sales include a surcharge used to fund future mausoleum construction - Interest on reserve fund balance	- Expenditures related to new mausoleum construction	\$ 101,457	\$ 1,500,000	- Projected cost of future mausoleum construction incorporating construction price index
Actifest	Legacy fund from Senior Games for programmes promoting healthy lifestyles for Seniors 55+	- Transfer of surplus from 2004 Ontario Senior Games - Grants - Interest on reserve fund balance	- Expenditures related to the promotion of healthy lifestyles for citizens aged 55+ years	\$ 5,658	- N/A - One-time legacy fund to be drawn down over time	- N/A - One-time legacy fund to be drawn down over time
Civic Project Fund	Fund community projects, external cultural and community improvement initiatives. Used to fund significant new facility construction and/or purchases	- Proceeds from St. Catharines Hydro Inc. / Hamilton Hydro Inc. merger in 2005 - Interest income - internal loan re: construction of Seymour Hannah - Interest on reserve fund balance - Sale of land	- Community grants - Interest paid to support Operating Fund - Cultural Investment Program - Physician Recruitment - Heritage Grant Program - Habitat for Humanity - Contributions towards major capital projects	\$ 11,383,636	\$ 68,591,000	- Maximum balance of 10% of net City assets. Net City assets as at December 31, 2014: \$685,910,000 x 10% = \$68,591,000
Parking Operations	Net revenue from parking operations	- Transfer of annual net parking operations revenue - Interest on reserve fund balance	- Parking lot acquisition, construction and improvements - Purchase of parking control equipment	\$ 1,741,232	\$ 8,000,000	- Maximum balance of 10% of total estimated replacement cost of parking infrastructure owned by the City Estimated replacement cost as at December 31, 2015: \$80,000,000 x 10% = \$8,000,000

City of St. Catharines - Reserves and Reserve Funds

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	Targeted Balance	Basis for Targeted Balance
OBLIGATORY RESERVE FUNDS						
Future Sidewalks	When sidewalk requirements are waived by Council the funds are placed in a reserve for a period of 20 years	- Transfer of sidewalk deposits - Interest on reserve fund balance	- Sidewalk construction and improvements	\$ 1,001,035	- N/A - Contributions dependent upon development activity therefore upper limit not applicable	- N/A - Annual contributions dependent upon development activity - Funds should be utilized in a timely manner upon receipt rather than remaining in reserve indefinitely
Payment in Lieu of Parkland	5% cash-in-lieu of parkland dedication - Sec 542(15) <i>Planning Act</i>	- Cash payments made by the developer to the municipality in lieu of conveyance of land - Interest on reserve fund balance	- Parkland construction and improvements	\$ 1,090,441	- N/A - Contributions dependent upon development activity therefore upper limit not applicable	- N/A - Annual contributions dependent upon development activity - Funds should be utilized in a timely manner in accordance with the <i>Planning Act</i> upon receipt rather than remaining in reserve indefinitely
Building Code	Net building permit fees - Provincial legislation	- Transfer of annual net building permit income (if any) - Interest on reserve fund balance	- Transfer to cover annual net building permit deficit (if any)	\$ 265,454	\$ 1,560,000	- Maximum balance of one year's worth of building permit department's expenditures. Balance represents 2016 budgeted expenditures for Building & Plumbing department - Sufficient to cover future potential net building permit deficits
Subdivider Deposits	Fund expenditures for the specific subdivision	- Payments from developers held by the municipality as a deposit	- Refund of deposit back to developer upon successful completion of project - Amount taken from deposit and moved into revenue if developer unable to complete work and City is required to complete works	\$ 872,024	- N/A - Contributions dependent upon development activity therefore upper limit not applicable	- N/A - Annual contributions dependent upon development activity - Funds should be utilized in a timely manner upon receipt rather than remaining in reserve indefinitely

City of St. Catharines - Reserves and Reserve Funds

Reserve Name	Purpose	Revenues	Expenditures	Balance as at December 31, 2016	Targeted Balance	Basis for Targeted Balance
Residential Development Charges	Fund growth-related net capital costs for which the Development Charge was imposed - Sec 16(1) <i>Development Charge Act</i>	<ul style="list-style-type: none"> - Payments from developers collected to fund growth related capital expenditure - Interest on reserve fund balance 	<ul style="list-style-type: none"> - Eligible project costs for capital projects defined and listed in the approved Development Charge Background Study and By-Law 	\$ 3,514,509	\$ 3,514,509	<ul style="list-style-type: none"> - Development Charges set in accordance with the approved Development Charge Background Study and By-Law - Balance collected sufficient to fund growth related expenditures as per Development Charge Background Study and By-Law
Gas Tas Reserve - Provincial	Public transportation	<ul style="list-style-type: none"> - Payments from Provincial Government to fund public transportation - Interest on reserve fund balance 	<ul style="list-style-type: none"> - Transfers to St. Catharines Transit for upgrades to public transportation infrastructure 	\$ 897,463	- N/A - funding levels set by Ministry of Transportation	- N/A - funding levels set by Ministry of Transportation
Gas Tax Reserve - Federal	Infrastructure projects - roads sewers, watermains	<ul style="list-style-type: none"> - Payments through Association of Municipalities of Ontario on behalf of the Federal Government - Interest on reserve fund balance 	<ul style="list-style-type: none"> - Eligible project costs for infrastructure supporting cleaner air, cleaner water or reduced greenhouse gas emissions in accordance with Federal Gas Tax Agreements 	\$ 8,723,152	- N/A - funding levels set by Infrastructure Canada (Federal Government)	- N/A - funding levels set by Infrastructure Canada (Federal Government)